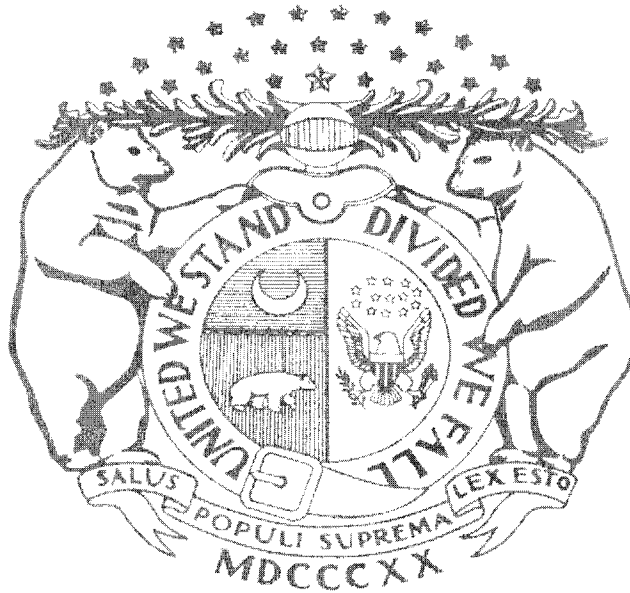


REPORT OF
FINANCIAL EXAMINATION

FIRST COMMONWEALTH OF MISSOURI, INC.

AS OF
DECEMBER 31, 2004



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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Honorable Kevin McCarty, Commissioner
Florida Office of Insurance Regulation
Chair of the NAIC Financial Condition (E) Committee

Honorable Jorge Gomez, Commissioner
Wisconsin Office of the Commissioner of Insurance
Secretary of the Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 630
Jefferson City, MO 65101

July 7, 2005
Chicago, Illinois

Sirs:

In accordance with your financial examination warrant, a financial examination has been made of the records, affairs and financial condition of

First Commonwealth of Missouri, Inc.

also referred to as "FCW-MO" or as the "Company." The examination was conducted at the Company's home office at 550 West Jackson Blvd., Chicago, Illinois 60661, telephone number (312) 279-5100. This examination began on June 6, 2005, and concluded July 7, 2005.

SCOPE OF EXAMINATION

Period Covered

The prior financial examination of First Commonwealth of Missouri, Inc. was performed as of December 31, 2000. The examination was conducted by an examiner from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2001, through December 31, 2004. The examination was conducted by an examiner from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring after December 31, 2004.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The workpapers of the Company's independent auditors were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments Previous Examination

Listed below are the comments and recommendations taken from the prior Report of Financial Examination as of December 31, 2000. The responses or actions taken by the Company are also described below.

Comment: Management

“It was noted that the Company’s Bylaws in Article IV, Section 1, preclude one person from holding the offices of President and Secretary. It was also noted that the Bylaws prescribe that the executive officers of the Company include one or more Vice Presidents. It is recommended that the Company take actions to comply with its Bylaws regarding the structure of its officers.”

Company response:

“To comply with the recommendation by the State of Missouri, the company has taken action to comply with its Bylaws regarding the structure of its officers. Specially (sic), the company has elected different individuals to hold the positions of President, Secretary and Vice President.”

Current findings:

The offices of President and Secretary have been held by separate individuals during the current examination period. The Company’s executive officers have included one or more Vice Presidents beginning in 2003.

Comment: Intercompany Transactions

“It is recommended that the Company execute a tax sharing agreement with its ultimate parent. The agreement should define the terms and conditions of computing and paying income taxes as well as prescribe that any amount due to the Company be paid in a timely manner. In addition, the Company should submit this agreement to the Missouri Department of Insurance for review.

“It is recommended that the Company formally execute its Administrative Contract with First Commonwealth, Inc. In addition, the Company should submit this agreement to the Missouri Department of Insurance for review.

“It is recommended that the Company formally execute its Administrative Master Contract with First Commonwealth of Illinois, Inc. In addition, the Company should submit this agreement to the Missouri Department of Insurance for review.”

Company response:

“The Company is included in a consolidated federal income tax return with Guardian. The Company has a written agreement, approved by the Company’s Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity that is a party to the consolidation. Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

“The Internal Revenue Code limits the amount of non-life insurance losses that may offset life insurance company taxable income. The consolidated income tax liability is allocated among the members of the group pursuant to a tax allocation agreement. In accordance with the tax allocation agreement, each qualifying member of the group computes its tax provision and liability on a separate return basis, but may, where applicable, recognize benefits of net operating losses and capital losses utilized in the consolidated group. Subsidiary tax liabilities (benefits) are settled subsequent to the filing of the federal income tax return.”

Current findings:

The Company has executed a tax sharing agreement with its ultimate parent, Guardian Life Insurance Company of America. The Company has also executed administrative contracts with First Commonwealth, Inc. and with First Commonwealth of Illinois, Inc.

HISTORY

General

The Company originally incorporated under the name Confi-Dent Health Plan, Inc. as a wholly owned subsidiary of Group Health Plan, Inc. (GHP) on October 18, 1988. On September 6, 1989, the Company amended its Articles of Incorporation to change the name of the corporation to Champion Dental Services, Inc. The Company was purchased on December 31, 1996, by First Commonwealth, Inc. The Company's name was changed to First Commonwealth of Missouri, Inc. on January 1, 1997.

Capital Stock

The Company is authorized to issue 50,000 shares of \$1.00 par value common stock. All 50,000 shares are issued and outstanding. All outstanding shares are held by First Commonwealth, Inc.

Dividends

The Company has never paid any dividends.

Management

The Board of Directors consists of three members. Members serving as of December 31, 2004, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
Paul E. Gauthier	Vice-President Guardian Life Insurance Company of America
Gregory D. Stobbe	Assistant Vice-President Guardian Life Insurance Company of America
Scott B. Sanders	Second Vice-President Guardian Life Insurance Company of America

Officers serving as of December 31, 2004, were as follows:

<u>Name</u>	<u>Office</u>
Scott B. Sanders	President
Alan Bialeck	Vice-President
Joann Kolesar	Treasurer
Gregory D. Stobbe	Secretary
Faith M. Drennan	Assistant Secretary

Conflict of Interest

The Company has a policy requiring directors and officers to complete conflict of interest statements. The current conflict of interest statements were reviewed as part of this examination. No material conflicts were indicated on any of the statements.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws. In addition, the minutes of the board of directors and shareholder were reviewed for the period under examination. The minutes of the board of directors do not indicate that the board reviewed the prior examination report for the period ending December 31, 2000. It is recommended that the board review all examination reports and indicate such review in the minutes.

During the review of the Company's by-laws it was noted that the by-laws have never been amended from Confi-dent Health, Inc., the original name of the Company. It is recommended that the Company amend its by-laws to reflect the current name of the Company. A copy of the amended by-laws should be submitted to the Missouri Secretary of State.

Acquisitions, Mergers and Major Corporate Events

As stated above, the Company was acquired by First Commonwealth, Inc. on December 31, 1996. The board of directors of both GHP and First Commonwealth, Inc., along with the Missouri Department of Insurance approved this transaction.

Surplus Debentures

The Company has not issued any surplus debentures.

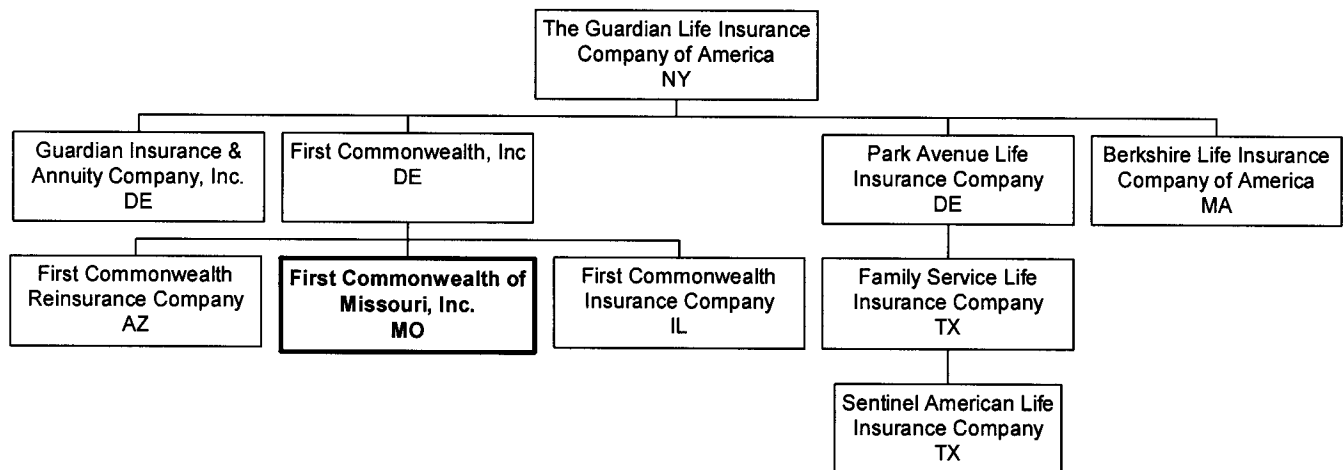
AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a subsidiary of First Commonwealth, Inc. (FCW-Inc), a Delaware corporation. FCW-Inc is wholly owned by The Guardian Life Insurance Company of America (Guardian), a New York domiciled life insurance company.

Organizational Chart

The following organizational chart depicts the holding company system of The Guardian Life Insurance Company at December 31, 2004. The chart below includes insurance companies only. Subsidiaries are wholly owned unless otherwise noted.



Intercompany Transactions

The Company is party to a Tax Sharing Agreement between Guardian Life Insurance Company of America and its subsidiaries dated July 19, 2001. Each subsidiary's share of the consolidated group tax liability shall be determined by reference to a pro forma federal income tax return. Quarterly, Guardian provides each subsidiary with a statement of estimated tax. The estimated tax amount is payable to Guardian within fifteen days of receipt of the statement. Within thirty days of filing a consolidated tax return, Guardian will submit a statement to each subsidiary showing the amount of additional tax owed, if any. If a subsidiary is entitled to a tax refund, Guardian will remit such amount within fifteen days of the statement.

In 1997, the Company entered into an "Administrative Contract" with its affiliate First Commonwealth, Inc. Pursuant to this contract, First Commonwealth, Inc. provides all functions reasonably required to manage the operation of FCW-MO. These functions include the preparation and adoption of an annual budget, maintenance of a suitable accounting system, management of information systems, deposit and disbursement of funds, collection of monthly charges, access to a provider network and other administrative services. Under the terms of this agreement, the Company is required to reimburse First Commonwealth, Inc. for actual variable costs of marketing and administrative expenses incurred plus ten percent. The Company is also required to reimburse First Commonwealth, Inc. for a reasonable portion of fixed marketing and administration expenses incurred plus ten percent. The fees paid to First Commonwealth, Inc. related to this agreement were \$463,000 in 2004 and \$463,000 in 2003 and \$519,000 and \$1,040,000 in 2002 and 2001, respectively.

In 1997, the Company entered into an "Administrative Master Contract " with its affiliate, First Commonwealth of Illinois, Inc. (FCWI). Under the terms of this contract, FCWI provides access to its provider network, performs quality assessment of its providers, and maintain contracts with providers for the payment of monthly capitation fees. The Company is required to remit to FCWI the sum total of all capitation amounts due dentists for members eligible for plan services. The Company is also required to reimburse FCWI for the actual cost of any administrative costs incurred plus ten percent. Fees are paid on a monthly basis. The total fees paid to FCWI related to this contract were \$853,000, \$1,011,000, \$1,206,000 and \$1,657,000 for the years 2004, 2003, 2002 and 2001 respectively.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a commercial crime policy that provides \$500,000 coverage for employee dishonesty, forgery and alteration and computer fraud. This coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

EMPLOYEE BENEFITS

The Company does not have any employees. All services are provided through contractual agreements with the Company's affiliates.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were deemed sufficient to meet the deposit requirement of Section 354.707 RSMo (Deposit Required) for the state of Missouri.

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Note 3.125% 5/15/07	\$53,000	\$52,936	\$52,920

Deposits with Other States

The Company does not have any funds on deposit with other states.

TERRITORY AND PLAN OF OPERATIONS

General

The Company is licensed as a prepaid dental plan with the Missouri Department of Insurance per Chapter 354 RSMo (Health Service Corporations). The Company was licensed only in the states of Missouri and Illinois at December 31, 2004. The Company has no applications pending in any other states.

Marketing

The Company markets products primarily through independent brokers. Brokers provide prospective groups and enrollees with brochures that explain the types of products and funding alternatives offered by FCW-MO. Marketing efforts are coordinated through the First Commonwealth, Inc.'s branch office located in St. Louis, Missouri. Brokers soliciting dental products receive commission payments on a monthly basis. Commission payments are made after premiums are received by the Company.

Products

The Company primarily offers three products, which are described below.

Dental HMO Plan

This product allows groups to select benefit levels and co-payment amounts related to covered services. Coverage provided under the Dental HMO Plan includes diagnostic and preventive services, basic and restorative services, major services (including prosthodontics and oral surgery) and orthodontic services. Subscribers are required to select a general dentist from the Company's provider listing who arranges for all dental care needs. The Company pays dentists monthly capitation fees based on the number of subscribers.

Dental PPO Plan

This product provides similar coverage as the Dental HMO Plan. Subscribers pay lower co-payments if they choose a provider from First Commonwealth's dental PPO network. Dentists participating in this program have agreed to lower reimbursement rates to gain access to First Commonwealth enrollees.

Indemnity Plan

The Indemnity Plan provides coverage for dental services that are medically necessary including diagnostic and preventive services, basic and major dental services and orthodontic services. First Commonwealth agrees to pay usual customary and reasonable fees after subscribers have satisfied their respective deductible.

Provider Contracts

Pursuant to Section 354.715 RSMo (Providers of dental care), the Company has written agreements with each of its participating dentists. Providers in the First Commonwealth network are under contract through the Company's affiliate First Commonwealth of Illinois, Inc.

Enrollee Contracts

In accordance with Section 354.712 RSMo (Contract or contract certificate to be issued to enrollees), the Company has written contracts with all of its groups / subscribers.

Rates

The Company uses internal analysis to establish monthly premium rates and provider capitation rates. The analysis is based on claim cost utilization studies and actuarial models. Rate changes are not subject to approval by the Missouri Department of Insurance.

Grievance Procedures, Quality Assurance, Utilization Review and Provider Credentialing

In accordance with Section 354.715 RSMo (Providers of dental care), the Company has established procedures for the review and mediation of enrollee complaints concerning the appeal of a denied claim and the quality of care rendered by a participating dentist. Subscribers and Providers are informed of complaint filing procedures in their Subscriber Agreements.

REINSURANCE

The Company does not assume or cede any reinsurance.

ACCOUNTS AND RECORDS

General

The Company's financial statements are prepared based on generally accepted accounting principles. Adjusting entries are made as necessary to reflect statutory accounting principles. In 2004 the Company switched its accounting software system from AccPac for Windows to PeopleSoft. The Company changed its claims and policy information system from Health System Integration (HSII) to Trident.

It was noted during the examination that the Company has not filed an abandoned property report with the state of Missouri as required by RSMo 447.510 (Unclaimed funds held and owing by insurance company presumed abandoned). The Company is directed to prepare and submit an abandoned property report to the Missouri State Treasurer for the period ending December 31, 2004.

Independent Auditor and Actuary

Financial statements are audited annually by the accounting firm PricewaterhouseCoopers, LLP. Reserves and related actuarial items reported in the financial statements were reviewed by Sanford Herman, AAA, Vice-President, Group Pricing and Standards, Guardian Life Insurance Company of America.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2004, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual financial statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 52,920	\$ -	\$ 52,920
Cash and Short-term Investments	3,353,029	-	3,353,029
Investment income due/accrued	204	-	204
Uncollected Premium	373,334	-	373,334
Deferred Tax Asset	2,253	2,253	-
Receivable from Parent, Sub, Affiliate	<u>52,087</u>	<u>-</u>	<u>52,087</u>
Total Assets	\$ 3,833,827	\$ 2,253	\$ 3,831,574

LIABILITIES, CAPITAL AND SURPLUS

Claims Unpaid	\$ 160,692
Advance Premiums	353,997
General Expenses Due	26,075
FIT Payable	266,394
Amount due Parent, Sub, Affiliate	<u>72,410</u>
Total Liabilities	\$ 879,568
Common Capital Stock	50,000
Gross Paid-in and Contributed Surplus	357,253
Contingency Reserve	150,000
Unassigned Funds (Surplus)	<u>2,394,753</u>
Total Capital and Surplus	\$ 2,952,006
Total Liabilities, Capital and Surplus	\$ 3,831,574

STATEMENT OF REVENUES, EXPENSES AND NET WORTH

Premium Income	\$ 3,148,735
Net Investment Income	<u>17,722</u>
Total Revenues	\$ 3,166,457
Benefits Paid	\$ 2,049,655
Administrative Expense	646,342
Other Expenses	<u>-</u>
Total Expenses	\$ 2,695,997
Federal Income Tax	<u>95,257</u>
Net Income	<u>\$ 375,203</u>

NOTES TO FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Corporate Records

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The minutes of the board of directors do not indicate that the board reviewed the prior examination report for the period ending December 31, 2000. It is recommended that the board review all examination reports and indicate such review in the minutes.

During the review of the Company's by-laws it was noted that the by-laws have never been amended from Confi-dent Health, Inc., the original name of the Company. It is recommended that the Company amend its by-laws to reflect the current name of the Company. A copy of the amended by-laws should be submitted to the Missouri Secretary of State.

Accounts and Records

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SUBSEQUENT EVENTS

None

RECEIVED
MO INS DEPT
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ACKNOWLEDGMENT

The assistance and cooperation extended by the officers of First Commonwealth of Missouri, Inc. during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

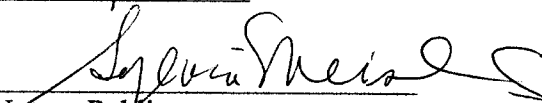
State of Florida)
)ss
County of Palm Beach)

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.




Thomas J. Cunningham, CPA, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 30 day of August, 2005.
My commission expires:

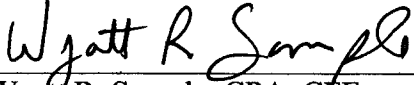


Notary Public

 Sylvia Melseles
My Commission DD191410
Expires April 22, 2007

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


 Wyatt R. Sample, CPA, CFE
 Acting Audit Manager
 Missouri Department of Insurance